



To: Multistate Tax Commission
From: Rich Jackson, Treasurer
Date: July 15, 2015
Subject: The FY 2016 Budget

I. Commission Budget Process

Each year at a meeting or teleconference held in the spring, the Executive Committee sets the fee levels for major programs:

- Membership assessments for Compact Members and Sovereignty Members,
- Audit fees for Audit Program States, and
- Nexus fees for National Nexus Program states.

At its meeting in Washington, D.C. in May of this year the Executive Committee also reviewed and approved the expenditures budget for FY 2016.

The entire budget for FY 2016 is now being presented for ratification by the Commission at its annual meeting in Spokane, Washington.

II. The FY 2016 Budget

Revenues

Fee increases are requested for FY 2016 (as compared to FY 2015 fee levels):

Membership Assessments:	2.0% (calculated on the total assessments)
Audit Program Fees:	2.0% (calculated on the base audit fee)
Nexus Program Fees:	2.0% (calculated on the total Nexus fees)

These requested fee increases for FY 2016 are the same as were *projected* within the FY 2015 approved budget document.

Issues or comments affecting fee levels:

- **General Operations Support Fee**

This 20% fee is added to the Audit Program fee and/or Nexus Program fee for states which are neither a Compact nor Sovereignty member. This amount is assessed on non-Compact and non-Sovereignty members to support the general operations of the Commission related to these programs. This amount is transferred from either the Audit Program or the Nexus Program fees. For FY 2016 the amount of general operations support fees are \$222,474 from the Audit Program and \$66,735 from the Nexus Program. These fees help mitigate the need for additional increases in the total Membership fees.

- **Iowa, Pennsylvania, and Rhode Island Participation in the Audit Program**

FY 2015 was the first year of the three year phase-in period for the participation of Iowa, Pennsylvania, and Rhode Island in the Joint Audit Program. The audit fee level for these states was set at 35% of the fully phased-in fee amount for FY 2015 and will be set at 75% of the fully phased-in fee amount for FY 2016. In FY 2017 the audit fee for these states will be set at the fully phased-in audit fee level in accordance with the contracts with these states.

Expenditures

In general, the requested expenditure amounts in the attached requested FY 2016 budget reflect a continuation of current activities.

The most important factors affecting the expenditures budget are as follows:

1. The FY 2016 requested expenditure total of \$7,001,404 for continuing operations is 1.6% more than the FY 2015 approved expenditures for *continuing* operations of \$6,891,308 (which excludes the \$52,756 of expenses for the Arm's Length Adjustment Service Project). This expenditure request is substantially a same services / same positions continuation request.

2. A 240-hour temporary/part-time assistant position has been added into the National Nexus Program (providing for part-time administrative help to be hired from time to time as needed).
3. An estimated 5.0% health insurance premium increase. [The CareFirst health insurance plan year begins September 1].
4. A proposed 2.0% overall salary adjustment.

Staffing Levels as budgeted for FY 2016 are as follows:

	<u>FTEs</u>
General Operations (Executive, Legal, Legislative, and Policy & Research)	5.10
Audit Program	26.92
Training & Education Programs	.76
Nexus Program	4.49
Administration (Information Technology, and General Administration)	<u>7.35</u>
TOTAL	44.62

Staff time is allocated to and charged to the Training & Education Program as staff performs duties associated with the various schools (Nexus schools, Statistical Sampling schools, *etc.*).

In addition to the 45 FTEs which are funded positions we are requesting two intern positions which are currently unfunded. One or both of these intern positions might be filled if surplus funds become available.

Surplus/Deficit – All Programs

The overall surplus for FY 2016 included in the budget document (which was approved by the Executive Committee at its May 2015 meeting) is \$12,904.

After the meeting of the Executive Committee in May 2015 there have been two significant developments (both effective July 1, 2015) that will affect the FY 2016 budget and financial operations of the Multistate Tax Commission:

- Delaware joined the Audit Program which will increase Audit Program revenue by \$47,016 for FY 2016.
- Massachusetts left the Audit Program which will reduce Audit Program revenue by \$248,760 for FY 2016.

By delaying the hiring of certain positions (including vacant auditor positions) and the financial effects of lower starting salaries related to these positions the Multistate Tax Commission expects to operate at a breakeven level for FY 2016 despite the net loss in Audit Program revenue for FY 2016.

III. The FY 2017, FY 2018, and FY 2019 Budget Projections

Revenue Increases

The percentage fee increases projected for fiscal years *beyond* the FY 2016 budget year are:

Description	FY 2017	FY 2018	FY 2019
Membership Assessments	2.00%	2.00%	2.00%
Audit Program Fees	2.00%	2.00%	2.00%
Nexus Program Fees	2.00%	3.00%	3.00%

Expenditure Increases

The percentage increases used for each annual expenditure increase shown *beyond* the FY 2016 budget year are:

Description	FY 2017	FY 2018	FY 2019
Salaries and Retirement	2.00%	2.00%	2.00%
Employee Insurance	5.00%	5.00%	5.00%
Other Operating Expenses	3.00%	3.00%	3.00%

Note that a substantial portion of “Employee Insurance” is group health insurance for which continuing large annual rate increases are anticipated.

Attachment

SUMMARY OF MEMBERSHIP & PROGRAM FEES

General Membership Assessment (Compact & Sovereignty Members)

The general membership assessment (GMA) finances the uniformity, research, interaction on federal legislation, legal support, and litigation activities of the Commission as well as the annual conference.

The total membership assessment is set to cover the above activities and departments. Then the total membership assessment is distributed to the states according to a formula in the Multistate Tax Compact whereby 10 percent of the fees are divided on an equal basis, and 90 percent on the basis of relative shares of certain state and local revenues (as specified in Art. VI, Sec. 4(b) of the Compact). The state and local revenues are determined by a survey of the states.

Joint Audit Program Fees

The audit fees support the audit services provided to states through the Joint Audit Program.

Overall audit fees are set on a reimbursement basis to cover the costs of operating of the program. They are distributed among the states by a schedule approved by the Executive Committee. The distribution of the fees among participating states is based on a long-range schedule of fee changes adopted in May 1991.

States participating in both income and sales tax audits pay a base fee amount that is equal for each state and is based on a cost reimbursement method. States participating in only income or sales tax audits pay an amount equal to 60 percent of the base fee amount for participating in both types of audits. States that are not compact or sovereignty members also pay an additional 20 percent general operations support fee. Those participating states which are among the 10 smallest states (including the District of Columbia) by population are given a 10% reduction in audit fees.

National Nexus Program Fees

Nexus fees support the compliance activities of the National Nexus Program.

Total nexus fees are set to cover the costs of operating the program. The nexus fees are apportioned among participating states according to a formula whereby 60 percent of the costs are divided on an equal basis, and 40 percent on the basis of relative shares of state tax revenues of participating states (obtained from the Bureau of the Census). States participating in only the income or sales tax aspects of the program pay 60 percent of the equal share, but otherwise pay the 40 percent component just as those participating in both.

Nexus fees are also capped such that no state pays more than five percent of the total program fees. States that are not compact or sovereignty members also pay an additional 20 percent general operations support fee.

Training Program Fees

These are set on a full cost recovery basis in accordance with the direction of the Executive Committee.